

Message Text

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ACTION EB-07

INFO OCT-01 EA-06 ISO-00 SP-02 AID-05 NSC-05 CIEP-01

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E.O. 11652: N/A

TAGS: EINV MY

SUBJ: COLGATE-PALMOLIVE CALLED ON GOM'S CARPET

1. JOHN G. PLACKETT, MANAGING DIRECTOR, COLGATE-PALMOLIVE'S MALAYSIAN OPERATIONS, INFORMED COMATT THAT HE HAD RECEIVED LETTER FROM FOREIGN INVESTMENT COMMITTEE (FIC) "INVITING" HIM TO APPEAR BEFORE COMMITTEE SECRETARIAT ON JUNE 5 TO DISCUSS HIS COMPANY'S "FUTURE PROGRAM WITH RESPECT TO PROPOSALS FOR MALAYSIAN EFFECTIVE PARTICIPATION" IN COLGATE. FIC IS PART OF PRIME MINISTER'S OFFICE AND IS CHARGED WITH OVERSEEING FOREIGN INVESTOR'S COMPLIANCE WITH THE NEW ECONOMIC POLICY (NEP).

2. FIC LETTER BEGINS WITH STRAIGHTFORWARD PRESENTATION OF NEP 1990 GOAL OF MALAYSIAN OWNERSHIP OF AT LEAST 70 PERCENT (WITH AT LEAST 30 PERCENT BEING OWNED BY BUMIPUTRA INTERESTS) OF SHARE CAPITAL IN CORPORATE SECTOR. LETTER THEN POINTS OUT THAT FIC HAS RECEIVED A NUMBER OF VOLUNTARY PROPOSALS FROM COMPANIES FOR RESTRUCTURING OF OWNERSHIP. (COLGATE, 100 PERCENT US OWNED, HAS NOT SUBMITTED SUCH A PROPOSAL.) LETTER THEN DROPS THE KICKER THAT

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THE FIC WILL "INVITE PROPOSALS FOR THE FULFILLMENT OF

OBJECTIVES OF NEP, IN PARTICULAR OWNERSHIP TARGET" FROM FIRMS WHICH HAVE NOT YET SUBMITTED PROPOSALS.

3. PLACKETT STATES THAT COLGATE WILL PRESENT PROPOSAL AT HEARING FOR 30 PERCENT BUMIPUTRA OWNERSHIP OF COMPANY BUT WILL NOT BE PREPARED, AT LEAST IN INITIAL NEGOTIATIONS, TO GO BEYOND THAT DILUTION OF COMPANY'S HOLDINGS. IN ADDITION, HE WILL EXPLAIN THAT THIS PROPOSAL SUBJECT TO TWO CONDITIONS A) TRUE VALUE BEING PAID FOR OWNERSHIP SHARES AND; B) BUMIPUTRA PARTICIPANTS WILL BE REPUTABLE AND PREPARED TO PLAY ACTIVE ROLE IN COMPANY'S AFFAIRS. REGARDING SECOND POINT, PLACKETT STATED COLGATE HAD BEEN WORKING FOR SOME TIME WITH ROTHSCHILD'S MERCHANT BANK IN KUALA LUMPUR IN LOCATING APPROPRIATE BUMIPUTRA PARTNER. HE FEELS THAT THEY WILL FIND SUITABLE PARTNER.

3. COLGATE IS THIRD COMPANY TO HAVE RECEIVED SUCH INVITATION. LEVER BROS. AND BEECHAMS HAVE ALSO BEEN SUMMONED BEFORE FIC. PLACKETT HAD TALKED TO J.W. SINNIGER, GENERAL MANAGER OF LEVER BROS. ABOUT HIS APPEARANCE BEFORE FIC SEVERAL DAYS AGO. SINNIGER HAD STATED THAT MEETING HAD GONE QUITE WELL AND APPEARED MORE IN NATURE OF PROBING OF COMPANY'S INTENTIONS THAN SERIOUS ATTEMPT TO FORCE SALE OF PORTION OF EQUITY. SINNIGER HAD TOLD FIC THAT LEVER WOULD ACCEPT 30 PERCENT PARTICIPATION BUT THAT IF 70 PERCENT PUSHED, COMPANY WOULD CLOSE OPERATION, FIC MEMBERS APPEARED TO TAKE THIS TO HEART. THEY ASKED IF LEVER WOULD BE WILLING TO ACCEPT 49 PERCENT MALAYSIAN OWNERSHIP. SINNIGER DODGED QUESTION BY STATING HE WOULD HAVE TO REFER QUESTION TO BOARD IN LONDON. ALL-IN-ALL, SINNIGER QUITE PLEASED WITH RESULTS OF MEETING, FEELING THAT HE HAD MADE GOOD CONTRIBUTION TO FIC'S EDUCATION. PLACKETT NOT QUITE SO SANGUINE ABOUT TENOR OF CONVERSATION BUT WILL HAVE BETTER IDEA OF TRUE STATE OF AFFAIRS AFTER HIS PRESENTATION. HE PROMISED TO BRIEF EMBASSY AFTER MEETING WITH FIC.

4. COMMENT. ALL OF THE COMPANIES CALLED BEFORE THE LIMITED OFFICIAL USE

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FIC THUS FAR ARE THOSE WHICH HAVE NOTABLY DRAGGED THEIR FEET ON THE QUESTION OF BUMIPUTRA PARTICIPATION. THEY HAVE ALL BEEN IN MALAYSIA FOR MANY YEARS AND HAVE EXTRAORDINARY PROFIT RATES (PLACKETT STATED HIS OPERATION, BECAUSE OF FOREIGN EXCHANGE REMITTANCE DIFFERENTIALS, MAKES MORE MONEY THAN COLGATE'S SUBSIDIARY IN FRANCE). THUS, THIS ACTION BY FIC NOT ENTIRELY UNEXPECTED. IT DOES, HOWEVER, ADD TO THE GROWING

SENSE OF UNEASE IN U.S. BUSINESS COMMUNITY AS TO GOM
INTENTIONS RE NEP. UNTIL QUITE RECENTLY, 70 PERCENT
MALAYSIAN OWNERSHIP OF CORPORATE SECTOR WAS BASICALLY
UNDERSTOOD BY FOREIGN INVESTORS TO BE A MACRO-ECONOMIC
TARGET WITH MALAYSIANS TAKING A MUCH LARGER SHARE OF
RAPIDLY GROWING ECONOMIC PIE IN ORDER TO REACH THIS
LEVEL BY 1990. IT HAS BECOME OBVIOUS THAT GOM HAS NOW
DECIDED TO TAKE A MICRO, FIRM-BY-FIRM APPROACH IN
THIS MATTER. IT IS THIS DECISION THAT HAS GRATED ON
NERVES OF MANY AMERICAN BUSINESSMEN. COMBINED WITH
SHOCKS CAUSED BY PETROLEUM AMENDMENT ACT AND INDUSTRIAL
COORDINATION ACT, THIS ACTION OF CALLING IN FOREIGN
INVESTORS IS PERCEIVED BY MANY U.S. BUSINESSMEN AS
BEING PART OF A DELIBERATE GOM POLICY TO DISCOURAGE
FOREIGN INVESTMENT. WHILE THIS CONCLUSION MAY BE
UNJUSTIFIED, IT IS BEING HELD INCREASINGLY BY A
NUMBER OF U.S. BUSINESSMEN AND WILL NO DOUBT HAVE SOME
IMPACT ON THEIR FUTURE EXPANSION AND INVESTMENT PLANS.
UNDERHILL

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